

## Appendix H: This Evergreen Empire: Maine's Forest Resources in a New Century

By Lloyd C. Irland  
President  
The Irland Group

### Executive Summary

Maine's forest resource and forest-based industry have entered this century to find new and troubling dynamics at work. Changes in the corporate world, in financial markets, seemingly insatiable demands for land in southern Maine, and surging foreign competition create new challenges and opportunities. Our traditional views about the Maine woods and the industry, and our established policies are not capable of coping with these new challenges and realizing these opportunities. An entire industry is being re-created before our eyes and we do not have the operator's manual. We will have to improvise. A few ideas, based on initial consultations, are offered at the end of this essay.

### Introduction

Maine's "Evergreen Empire" of forest has supported families, communities, and major portions of the State's economy for four centuries. The early years of this new century are challenging the Maine forest resource, its landowners, and its wood-using industry at an intensity not seen since the Great Depression. What are these challenges?

The overall challenge is the very pace of change and the novelty of the new developments. Had anyone predicted, ten years ago, all that has come to pass today, they would not have been taken seriously. Those who have followed the industry most closely are probably more surprised than anybody else! For wood-using industry and dependent communities, the news has more often been bad than good – mill closings and job cuts have become routine. In most instances, few options have been at hand. Mere survival has required drastic measures. Even the participants in all this restructuring do not understand the long-term implications. Internationally, a totally new intensity of global competition has emerged.

After a century of general stability, the recent decade has brought unusual turnover in owners and objectives. Long familiar owners have vanished, replaced by newcomers with uncertain motives and clearly shorter time horizons. All of this is not necessarily harmful, but it is different. The ferment, sales, and turnover in the market supply a steady flow of feedstock for "liquidators" – exploitive operators who buy, strip, and resell large tracts, often after subdividing into large lots. Thus do market pressures tilt time preferences? Lands once owned with pride by a family for generations are stripped and converted to remote lots in a matter of months. The lots are sold to new owners, many of whose motives are simply to hold the lot for a quick speculative gain.

The great challenge is the increasing obsolescence of our intellectual equipment for understanding what is going on and responding to it in the public arena. The pace of change, the new and unfamiliar developments, all create a new market dynamic in which old ideas seem anachronistic, if not perverse. The old notions, the old solutions no longer work. This essay expands on this idea with some more details, organized first around the forest resource itself, and then around the State's wood-using industry. It then offers some generic implications for policy. To serve this purpose, many details of the forest's overall story must be left aside.

## Maine's Forest Resource

The Maine forest has a complex land use history. In the more settled areas, some 4 million acres of land, once farmed in the late 19<sup>th</sup> century, are now growing trees. Today, there is almost as much forest land as there was in 1600. Forests in the wildlands have been harvested multiple times for various products. Additionally, in recent decades a strong system of public lands has emerged, including important reserves and other areas protecting ecological and recreational values (see, generally, Irland 1999; Rolde, 2001; and MFS, 2001).

The spruce-fir forests of the wildlands have emerged from the damage of the budworm epidemic and subsequent salvage cutting. It is not yet certain that inventory declines have ended, however, though early indications are hopeful (MFS, 2003). They are only now beginning to show the positive effects of 25 years of investments in thinning, herbiciding, and other treatments on an area of roughly three-quarters to one million acres. These stands can grow at rates twice as high as the natural forests they are replacing, and occasionally higher.

### **Resource Strengths**

1. As a result of intensive management practices, perhaps three-quarters of a million acres of spruce-fir are growing faster than the natural forest would grow. Over coming decades, these stands will significantly improve supply prospects for lumber and paper mills (Wagner, Bowling, and Seymour, 2003). This resource has been termed the "New Forest."
2. Maine has unusually diverse markets for wood. Log grades are highly developed, so that logs can be sold to particular uses at the best price and not sold just as "woods-run" mixed lots. A heavy demand for hardwood pulpwood enables low-grade forests to be managed and even improved by supplying a market for low value wood.
3. The forest grows many species such as sugar maple, spruce, yellow birch, and paper birch that are valued for papermaking. These species also make lumber that is increasingly valued on world markets.
4. The Tree Growth Tax is a major strength for the State's private forest estate. *Note:* challenges and debates over its details are felt by many owners to diminish the needed stability that this tax should provide.
5. Information about Maine's forest resource and wood usage has been materially improved and now matches virtually any other state. One important program is the Annual Forest Inventory System (AFIS) (MFS, 2002).
6. The University has significant strengths in forestry research and training.

### **Resource Weaknesses**

1. Maine's hardwoods are small in size compared to other U.S. states, and of low-grade. Growth rates are low, and past management over a century or more has left a heritage of stand conditions that will take decades to repair. Despite this, it does not appear that log supplies were key factors in the loss of hardwood plants.
2. The spruce-fir forest that has not been subjected to intensive management is in many places slowly recovering, but lacks thrifty growing stock of large trees and is in many areas understocked for good productivity.

3. A major review by the Maine Forest Service found that failure to leave adequate growing stock for future growth is common (Gadzick, Blanck, and Caldwell, 1998). This will not be an easy problem to solve as logging becomes more mechanized and the cost pressures on landowners and loggers intensify. Further analysis using AFIS data will undoubtedly clarify the situation and outlook.
4. Debate over biodiversity-friendly management practices continues. Science seems unable to resolve the most contentious issues. Public controversy, federal regulation such as the Endangered Species Act, and other issues create significant public policy challenges for forest ownership.

### **Resource Opportunities**

1. If the investment climate is considered sound, there are many opportunities for management practices that would increase both growth rates and wood quality in forests around the State. Over time, such practices would also increase landowner incomes and the value of the land.
2. Maine has an extraordinary amount of forest land that has been third-party certified as well-managed (6.5 million acres by summer 2003). There is wide interest in pursuing market development efforts to turn this situation into a business opportunity. Governor Baldacci's initiative to boost this acreage will surely draw attention to this (see "Challenges: The Resource" below).
3. There appear to be local niche market opportunities in developing specialized recreational activities and accommodations (e.g. yurt-to-yurt) on private, managed timberlands.
4. The lands that have been immunized against subdivisions and development by easements may provide a supply base for a stable future timber flow, but this is not at all guaranteed. By rough count, these total 1.6 million acres in summer 2003. More projects are under consideration such as the West Branch Project (involving 329,000 acres) and the Downeast Partners Project (involving 312,000 acres).
5. For some years, carefully crafted proposals for "representative reserves" have been on the table. These would retain samples of unmanaged ecosystems fully representing all major ecosystem types in the state.
6. Recent legislative action providing for such reserves on the Public Reserved Lands is a major milestone. It is time to address any remaining as they concern adjacent privately owned lands.

### **Resource Challenges**

Beyond the specifics noted, the forest faces major challenges.

#### **1. Offshore Competition**

It is said that from the towers of the Aracruz pulp mill (Brazil), you can see all the forests that supply its wood. This is impossible anywhere in the U.S. This reflects the fast growth rates of the tropics. In Maine, wood travels long distances and carries a huge burden of transportation costs with it into the woodyard.

Planted forests abroad are supplying escalating volumes of lumber to the U.S., with their competitiveness augmented by the dollar's strength (at least up to Winter 2002, Fig. A); for just one example, see Chile (Ch. 5 in UNECE/FAO, 2002). Not only this, but U.S.

competitiveness in a wide range of value added products, from dowels, to furniture, is under siege (Irland, 2003; and UNECE/FAO, 2002, ch. 12.)

**Figure A**  
**Coniferous Saw Wood Production**

MMbf				
Year	Chile	New Zealand	Brazil	Total
1980	828.5	845.5	3028.6	4703
1990	1224.9	916.3	3359.4	5501
2001	2366.3	1608.2	3307.2	7282

Source: FAO

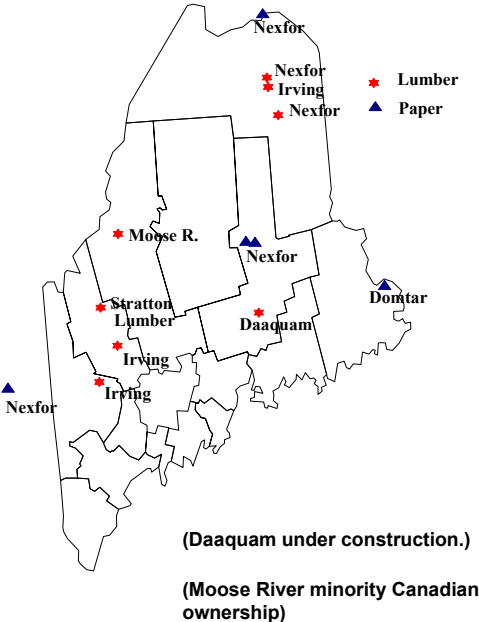
2. Canada Trade

At one time, it appeared Canadian public land managers were planning to reduce the emphasis on wood production substantially and that this would drive down log supply nationwide and ameliorate competition from above the 49<sup>th</sup> Parallel. This has not yet occurred. Indeed, due to new technology and its aggressive implementation, the Canadian share in the U.S. softwood lumber market remains as high as it has ever been.

There have been opposing waves of cross-border investment. U.S. firms have bought out Canadian businesses, at the same time as Canadian companies have added to positions in the U.S. The net result is not clear nationally. Significantly, half of the Maine land remaining in industry hands is now owned by Canadian paper companies. Canada has emerged as a major capital supplier to Maine’s industry (Fig. B).

**Figure B**

**Canadian-Owned Mills**



### 3. Sprawl and Fragmentation

The Portland metro area led the nation in land consumption relative to change in population according to a Brookings Institution study (Fulton, et al. 2001). Statewide, according to USFS data, there were about 78,000 forest owners in Maine in 1953 and 256,000 in 1993. In 1993, 89.5% of the owners owned 100 acres or less.

These new, more affluent owners have financial strength that past generations of rural owners lacked. These new owners may effectively withdraw large areas from future timber supplies; but we do not know how to measure this. Basically, the land market is saying that it is not financially feasible to grow wood in much of the Maine forest, as the land is too expensive. It is more valuable as a consumption good or a vehicle for speculation. Owners often profess a vague concern for wildlife or ecological values, but rarely do anything specific to foster those values. For many, doing nothing seems adequate.

Sprawl takes different forms, and has different driving forces in different parts of the State. The widening of the Turnpike, for example, will accelerate land use pressure across a wide swath of southern and central Maine. Sprawl feeds on small local governments with minimal growth management capacity. The continued fragmentation of parcels and the epidemic of “No Trespassing” signs create an ongoing need for new ways to motivate smaller owners to manage their forest responsibly, and to provide for public access to these ever-smaller parcels.

### 4. Growing for Quality

I believe that Maine’s future lies in building on its ability to grow valuable species for quality, in a wild or semi-wild setting. Achieving this on any significant scale will be a major challenge. This is especially true in the face of evidence that recent cutting practices have been leaving behind understocked stands in too many instances.

### 5. Managing Recreation Uses

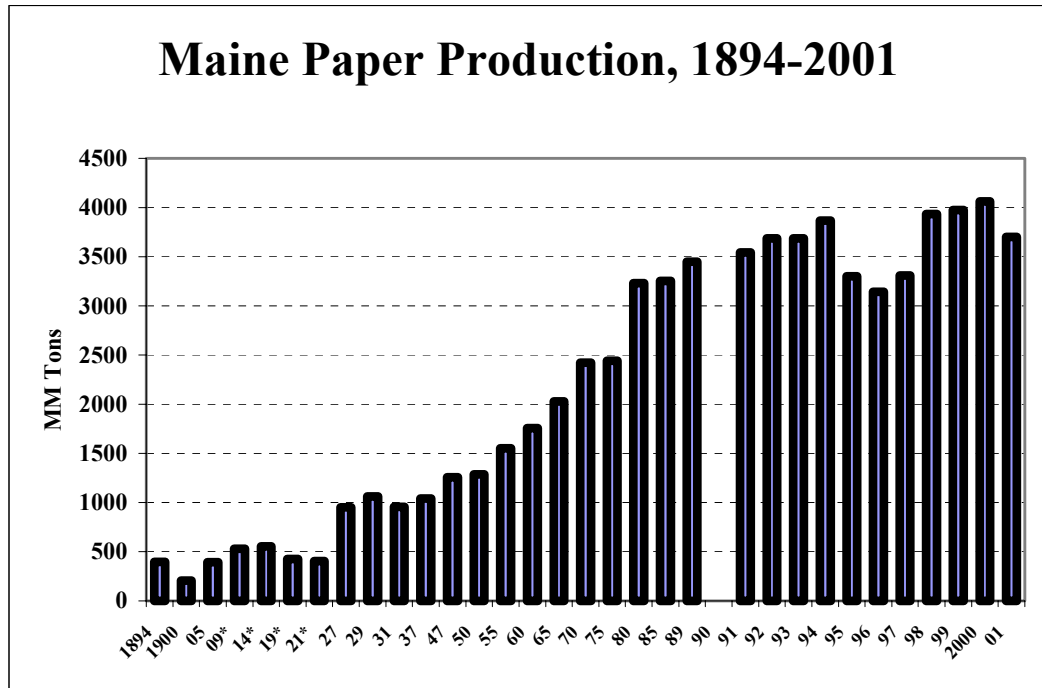
Managing conflicts between timber management and development and recreation has proved difficult in many cases. Yet, there are success stories. Better ways to resolve these conflicts could lead to major benefits.

## The Forest-Based Industry

Furs, house frames, cooperage, masts and spars, and lumber were among the earliest exports from Maine’s colonial economy. Countless tiny mills, powered by water and even by the tides, produced for export as well as for local needs. In time these grew in size and their operations spread, aided by river log driving, to the farthest corners of the wildlands. In the late 19<sup>th</sup> century, the paper industry arrived with large newsprint mills based on riverborne pulpwood and the new power of hydroelectric dams harnessing remote rivers (Rolde, 2001). For a generation after World War II, this industry held large wildland properties in what seemed a permanent feature of Maine’s economic landscape (Irland, 2003 and literature cited there). Certainly, landowner identities changed; but often the buyers kept the lands intact and nameplates on mills merely changed. Many communities depended on jobs in the paper mills, dowel plants, small sawmills, and other woodworking plants. Seasonal work in Christmas trees, wreaths, and maple sugar was important to many families. The logging camps of the 1950’s employed literally thousands of workers, including seasonal migrants from Quebec.

At an earlier Blaine House Conference (1983), it was noted that since 1950, Maine’s wood-based employment level had been maintained by a rising timber harvest offsetting the lower level of jobs per board foot cut. It was predicted that the wood harvest would clearly peak out in coming decades, however, and ongoing mechanization would reduce the jobs based on wood. This was an easy prediction to make, and it has come true with a vengeance. Actually, lumber and paper production has held up remarkably well through the 1990’s in the face of these issues (Figs. C & D).

Figure C

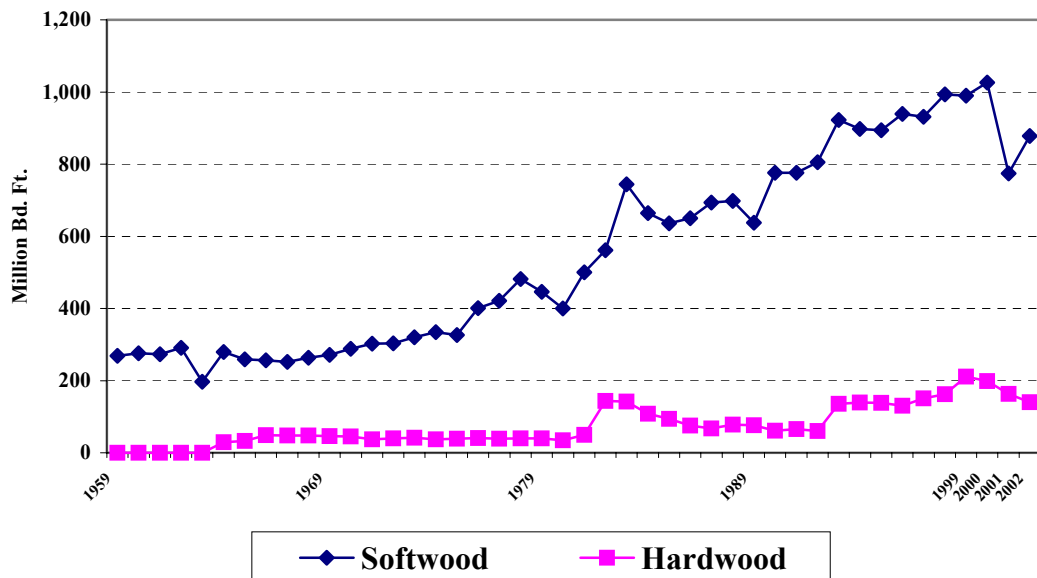


\* Partial Data      Note: 1990 data missing      Source: Irland, 2003, unpub. MS

The industry's social and economic importance has been fully documented (e.g., Irland, 1999; SPO, 2001; and NEFA, 2001).

Figure D

### Maine Hardwood & Softwood Lumber Production



### **Industry Strengths**

1. From industry's viewpoint, the largely private ownership of the forest is a major strength, at least compared to western states that are dominated by federal lands (Fig. E).

### **Figure E - Large Concentration of Industrial Ownership**

2. Maine has a well-developed industry infrastructure, the forest is fully roaded, and access to markets is good. It can be hoped that the recent changes in ownership of some mills has placed them in stronger hands for the long run than was the case ten years ago.
3. Existing mills, technical skills, workforce, and infrastructure create possibilities in a nation where the siting of new, "greenfield" plants (newly built plants at entirely new sites) for any heavy industry is nearly impossible. Pools of capital are available to operate such mills.
4. A number of well-managed, entrepreneurial firms continue to grow despite these obstacles. In some instances they have partially revived defunct operations of firms going out of business.
5. Some of the job losses reflected in the employment data reflect companies eliminating low-end jobs through mechanization. While regrettable at the time, jobs lost in this way are setting the stage for competitive survival.
6. The State's paper industry is under siege. Several mills have operated under bankruptcy this year. Since 1990, cutbacks have occurred at all mills, leading to a loss of about 5,000 of the State's best blue collar jobs. Severe operating conditions worldwide cast a shadow of uncertainty over many remaining mills. Global overcapacity is a major underlying cause (Price Waterhouse Coopers, 2003).
7. Strikingly, however, Maine has yet to permanently lose an entire large integrated virgin-fiber based production unit. This has occurred elsewhere in the Northeast and in the South, where most of the mills are newer and larger than those in Maine, though they compete in different markets.

### **Industry Weaknesses**

1. The nominal payments by new owners to buy paper mills in the Northeast offer irrefutable evidence of the marginality of this region's competitive position for many grades (considerable detail was presented at the University's Forum on the Paper Industry at Bangor in spring 2003. <http://www.umaine.edu/mcsc/paperconf.htm>)
2. It is so cheap to buy paper mills on Wall Street or at the bankruptcy court that no one can afford to build new, modern ones. The result is a "Smithsonian Trap" that locks the industry into ever more ancient mills. In such mills, incremental improvements in productivity, quality, or environmental performance are more costly than they would be in a brand new mill. Worse, the gains that can be made do not include increased machine widths, which are a significant dimension of the higher productivity of the most modern mills.
3. Fiber supply limits are well known. For the largest mills, they are undoubtedly perceived as a constraint on the expansion plans that inevitably accompany major modernizations. Other regions of the world offer not only low fiber costs, but considerable potential for expansion.

4. The small spruce logs on log decks at northern Maine mills are larger than seen in northern Quebec, but not by much. A look at these log decks would make a sawmiller of the 1970's cry. Technology has enabled the industry to make 2x4s from these tiny logs, but has not taught them how to make a profit doing it. The continent is in a glut of 2x4s, as everybody has an abundance of small trees.
5. Due to maturing markets, aging mills, high cost wood, and the high dollar, imports have increased dramatically. It is too soon to tell whether recent exchange rate declines will persist and how much this would have (Figs. F & G). From Europe alone, the U.S. imported in 2002 almost one billion feet of softwood, more than Maine's entire output. European shipment was to the U.S. increased ten-fold over five years. Rising imports of printing and writing grades have at times been based on quality as well as price. These imports strike directly at Maine's grade mix.

**Figure F**

**US Trade in Softwood Lumber 1993-2002**

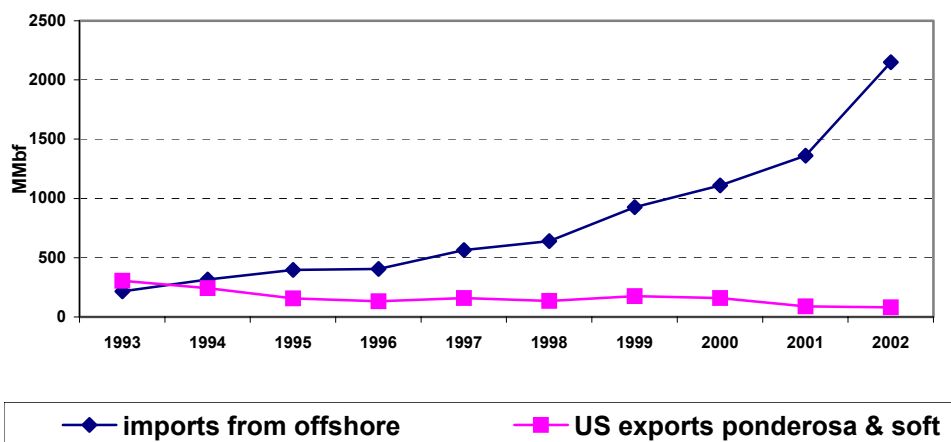
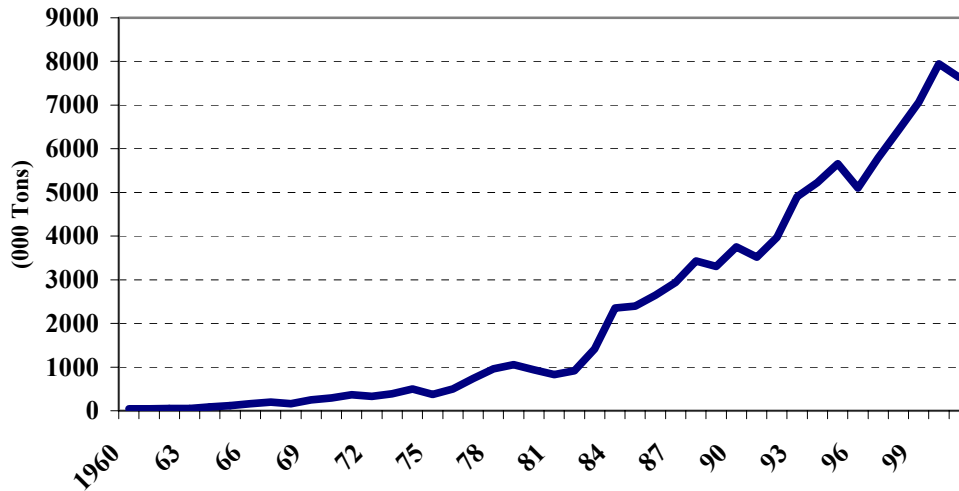


Figure G

## U.S. Imports of Printing & Writing Papers, 1960-2001



Source: AF&PA

A severely weakened branch of the industry is its logging infrastructure. A decade or more of severe pressure on rates, driven by restructuring, low end product prices, and chronic overcapacity, has significantly reduced employment in this field. Output per year and per employee has risen, and safety has dramatically improved. Surveys show, however, that many loggers are not urging their offspring to enter the field, as was common in former generations (A. Egan, research in progress).

6. The traditional stability of land ownership has been a factor favoring investment in the past. Today's ownership instability is weakening this past advantage.
7. An especially ominous trend is that value added plants are not just losing business to competing suppliers; the customers themselves are dropping out due to import competition. This is one reason that this restructuring is not just a cyclical dip; these downstream companies will not be back.
8. Many observers note that many small companies are just too small to support aggressive marketing and continuous technological improvement.
9. In many solid wood products, markets have multi-step distribution and are highly fragmented. This inhibits direct contact with end users and makes introduction of new products, brands, or product concepts like certification costly and difficult.
10. The surviving energy markets supply outlets for low-value mill byproducts and tops, bark, and waste from small wood processing plants. These markets are critical as they enable plants to gain some revenue from these byproducts instead of having to incur disposal charges which are burdensome in some areas. They also create jobs in small

communities. As these markets have weakened it has become a major concern for many plants.

### **Industry Opportunities**

At a time when small plants are being closed, large plants are downsizing, communities are being disrupted by waves of unemployment, the forest's wood output is straining at its natural and economic limits, and imports are rising every quarter – it seems idle to talk about opportunities. Perhaps it is just as well – the future path is not easily discernable. Here are places to begin:

1. We should be talking about retention and restructuring; if these can be aided and supported, it will be an achievement. This will be a lot of work.
2. Research-based products may offer opportunities, based on the distinctive, nationally significant technology capabilities of the University of Maine in this field. Yet, turning these technological and scientific capabilities into operating plants and products and jobs has turned out to be risky and difficult. We need to learn better how to do this.
3. Some feasible technology may emerge for producing chemicals or energy products from unused woody biomass or plant byproducts. This would be a very long-term prospect. Unfortunately, Maine has no monopoly on low cost, low-grade wood, and has significant negatives in its business climate for large-scale, capital-intensive industry. Still, alertness to new opportunities, coupled with due skepticism, is warranted.
4. There are a number of opportunities to relieve rail and highway transportation bottlenecks affecting the industry (Cambridge Systematics, 2002).
5. A more responsive capability for helping workers and communities adapt to plant closings would be useful.
6. The extensive network of technical expertise, management advice services, and financial support available to Maine small businesses has not been effectively marketed in this sector.

### **The Industry Challenges**

#### **1. The Exchange Rate**

The recent high exchange rate on the U.S. dollar has severely harmed U.S. and Maine manufacturing. The rate's decline over the past year is encouraging, but may not undo the damage that has already been done. The period of strong dollar both sucked in product from offshore and also hammered exports that had been built up over many years of patient effort and investment.

#### **2. Wood and Nonwood Competition**

The wood sector has always been its own worst competitor. The important innovation of I-joists has benefited homebuilders and homebuyers, but has displaced volumes of softwood construction lumber equal to many times Maine's annual production. Laminated veneer lumber has displaced 2x10 and 2x12 spruce. Makers of Medium Density Fiberboard (MDF) are offering furniture makers a material that offers price stability, good technical qualities, and impressive finishing options, thereby taking more chunks out of solid wood markets in furniture and cabinets. At present there are no MDF or particleboard mills in Maine. In solid products, "plastic lumber" (often from recycled stock), vinyl siding, fiber cement products, and improved roofing products have annexed markets that were owned by wood a generation or two ago. Steel studs are now standard in interior walls in urban areas and in commercial

construction. These developments have cost jobs in Maine, as sawmills serving these markets have had nowhere else to turn for markets.

### 3. Offshore Investment Climate

Country risk-comparisons are being revised by U.S. wood products companies and timber investors. Not long ago, the U.S. was perceived (at least by American business) as a strong and stable economy with stable institutions, a strong currency, and strong protection for business interests. A long record of disappointment was compiled by offshore investments that vanished into the pockets of corrupt officials, nationalizations by radical regimes, or the mire of gangsterism and nonexistent laws of contract.

For years, U.S. wood and paper companies had no serious interest in offshore investment. This has changed. The U.S. economy is now less stable, and its political risks are rising. Product markets are mature. Assets here are aging. The incentives to spend heavily to bring them to world-class status are weak to nonexistent. Today, a major U.S. wood products firm has invested in timber plantations in Uruguay, once a veritable poster child for political instability.

### 4. Sprawl

In southern Maine and along the fringes of the wildlands, the continued sprawl and fragmentation of parcels threatens supply and drives up the cost of obtaining wood. Increasingly, small parcels of wood included in inventories are actually not loggable. The effects are delayed by the short-term pulse of land and right-of-way clearing wood that accompanies development.

### 5. Certified Wood Markets

Despite the large area of certified forest land, and many efforts to promote certified products to consumers and manufacturers, the certified market is developing slowly. It has turned out to be much more difficult to develop this market than was once thought. Also, other areas can gain certification. For example, areas of intensively managed radiata pine in New Zealand are now certified, despite the fact that they use practices that would be uncertifiable in the U.S. Certification, for some species could turn out to be not an advantage but a disadvantage for Maine producers.

### 6. Perceptions of Business Climate

It is widely perceived within the paper and lumber industries, and by some outside observers, that Maine's cost of doing business is high. For some key items, this appears indisputable. It is also widely felt that many Maine communities are actively hostile to new plants.

### 7. Investment Returns are Low

Most North American wood products and paper end use markets are mature or slow-growing. Existing plants have written off old machinery and have low accounting capital costs. Pricing competition is often described as "cut-throat." Add to this picture the escalating import competition, and it is not surprising that in many lives, return on investment in the existing business is often low. Return on new machinery investments is very low. It has been a constant refrain that investment has been low, but there are good reasons for this.

Given these many dynamic trends, the Maine industry's outlook is uncertain. Through the late 1990's, the industry showed encouraging signs of resilience. Yet, despite strengthening in lumber and in some paper prices since midsummer 2003 (Rudder, 2003), the likelihood of further gains in prices and volumes is uncertain. More importantly, a gain in North American market conditions would not change the fact that emerging offshore competitors have dramatically lower costs, and that overcapacity persists. Finally, we do not know the extent to which rising interest rates will hurt the housing sector, which is approaching "bubble" conditions in many local areas.

While the worst of the job shrinkage may be behind us in Maine, there is no basis to conclude that we have hit bottom.

### New Ways of Thinking Needed

Wood products and paper manufacturers came to Maine to develop needed hydropower, to use the rivers for process water and as waste sinks, to ship to national and foreign ports from Maine’s docks, and to make use of abundant and low-cost timber resources. These conditions kept many jobs here for generations and enabled small communities to persist. These jobs gave chances to go to college and dignity in retirement to several generations of papermaking families. The industry retained an economic base for numerous small towns. Unless there are major new changes, these job losses can be considered permanent (Fig. H).

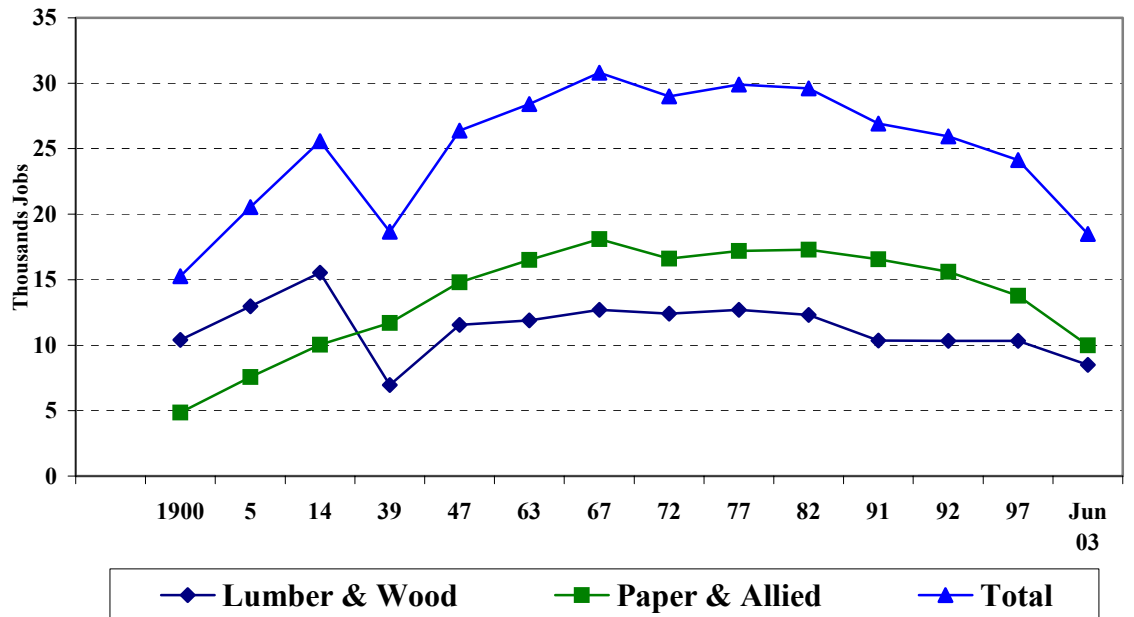
Here is a start at some “New Ways of Thinking:”

#### U.S. Manufacturing Crisis

Nationwide, U.S. manufacturing is in crisis. The shrinkage in employment has been severe, and bids fair to continue. It has affected so-called “New Economy” industries, old-line trades, and resource sectors. The problems of Maine’s lumber mills, paper mills, and turnery shops are not just sector-specific.

Figure H

### Maine Forest Industry Employment, 1900 to June 2003



Source: Census of Mfrs, U.S. Bureau of the Census with Census of Maine Mfrs for 1982a and 1991 to 1997; and MDOL, March, 2002.

**Note:** SPO, 2001 supplies estimates that are somewhat higher, partly due to different data and definitions.

### **Restructuring, Not a Cycle**

The current changes in Maine's forest sector are not a cyclical downturn that will rebound soon. They are based on restructuring of individual plants, of the companies themselves, and the entire North American forest products sector. Maine is not unique in seeing severe impacts, and in some respects has fared better than some competing regions.

### **Forest Proximity is not Necessary**

In this century, it is not necessary for secondary wood producers to build in the shadow of the forest; many of the world's greatest concentrations of these industries are elsewhere. In the tropics, bare fields can be producing pulpwood in six to ten years. Anywhere, producers can import the lumber, panels, or veneer they need. Large quantities of logs cross international borders.

### **A Cautious Approach to Value Added**

For decades the mantra has been that value added is the path to survival for firms, to more employment for Maine communities. This mantra was always an oversimplification; in today's competitive world, it is obsolete. For some firms, for some products, value adding may be part of the solution, but as a general prescription it may be a false promise. Our yields of high-grade hardwood are low, and our spruce-fir lends itself to few value added options. Our white pine, which does process well into dozens of useful items, has seen its markets annexed by competitors. Our competitors' costs are low, and they are gaining economies of scale and distribution. A cautious approach is one in which the private sector identifies niche products and markets and the public sector creates an environment that is receptive to the promotion of value added products. The key may be an intangible value added – creating a brand of Maine wood products.

### **Conservation Easements**

Maine is now a national leader in the extent of conservation easements on forest land. These easements vary widely in detail and management intent. This area is likely to grow in the future. In nearly all cases, some level of working forest management emphasis is provided for, and conversion of the land to other uses is prevented. We are only beginning to learn how to write and administer such easements, and how to think about a landscape increasingly affected by them. Some businesses in forest products and outdoor recreation report that they are already benefiting from the stability provided by conservation easements in their regions.

### **Ownership Changing**

In the wildlands, a new pattern of ownership is emerging from the ashes of the old. We need new ways of thinking about future supply under this new ownership system. The breakup of large empires into smaller pieces, with more dispersed ownership, is not in itself troublesome. But the declared short time horizons of some new buyers and the evident emphasis on quick returns through removing "surplus" growing stock are cause for concern.

### **Time Horizons of Forest Owners**

As the sizes of smaller tracts continue to decline, ownership time-horizons shrink, and suburbia seems to engulf the forest, new modes of relating to these smaller owners for distributing forestry advice are needed. The landowner assistance and cost-sharing approaches of the 1970's worked for a largely rural area. Those methods may not work for a forest that is increasingly in the grey penumbra of suburbia.

### **Composites Not a Substitute for Forest Management**

We often hear that the wave of the future is composites; you grind up the tree and glue it together for whatever properties you want. This superficially appealing notion seems to justify ignoring tree size and quality and just managing forests for tons. This may be so for some places but is not likely for Maine. There are no nonstructural board plants here now, and are not likely to be in the future (though there are three OSB plants). Composite board plants are closing in the northeast, not opening. A new plant, Correct-Deck, making a wood-plastic product, is growing rapidly. A key to its success is that it makes a branded consumer product and not a generic commodity.

### **Business and Worker Skills**

Programs to upgrade managerial capabilities, marketing skill, and business capacity, as well as worker skills, will be essential to retain such remaining wood processing capability as still survives here. Some of these companies may have no chance for survival other than to convert themselves into marketing agents for offshore producers. The choice may be between a few jobs retained in this manner, and zero retained by pursuing illusions and false hopes that somehow the last century will come back if the exchange rate improves. Aggressive technology extension is needed.

### **U.S./Canadian Lumber Trade Policy – A Disaster**

Better management of the U.S./Canadian trade relationship in softwood lumber is mandatory. The current situation is a tragic example of bad trade policies, industry wishful thinking, and misdirected political meddling. There are several I-joist plants to the north and east of Maine, some within a stone's throw of the State line. They serve U.S. customers. U.S. trade actions against Canadian softwood are a major reason that none of these are in Maine. Despite all-time high softwood lumber consumption in 2003, prices are down, mills are closing, and workers and communities are suffering. Instead of improving prices, our trade policies have made them worse. The results, unforeseen by lawyers, officials, and experts, have been damaging for all parties on both sides of the border. There is no effective accountability for those responsible for creating this situation. Our traditional ways of thinking about trade policy, reinforced by winner-take-all attitudes, folly, and economic illiteracy are patently unequal to the task. The first step in finding a cure is to face this fact.

### **Policy Polarization**

The wood-based industries need to be seen as part and parcel of a larger problem of manufacturing competitiveness. In particular, the severe challenges faced by the mature, capital intensive paper industry requires judgment and ingenuity in order to sustain a business environment in which capital investments may be retained or attracted. Adherence to polarized and rigid positions of the past concerning regulations, taxation, and public policies will deliver disappointment and failure. The residents of our mill towns and workers deserve better.

### **Policy Obsolescence**

The economic development programs now available emerged at a time when Maine was competing with Massachusetts, Minnesota, Vermont, or New York for an investment. By providing industrial space, an IGB, a training package, or guaranteed loans, Maine could offset its tax disadvantages.

In these ways, operating cost disadvantages of 5-10% could be offset, helping Maine plants to survive and even grow. Yet, the wave of rural plant closings nationwide testifies to the inadequacy of these programs in the face of competitive pressures of unprecedented intensity.

No longer are Maine mills competing with suppliers offering 5% less (and orders are lost for less), they are competing with emerging regions whose delivered costs into the U.S., at recent exchange rates, are a mere fraction of U.S. costs. For the most part, import cost advantages are based on absolute cost advantages, amplified perhaps by government actions offshore, as well as by U.S. government actions hostile to manufacturing. Trade actions cannot stem the tide in the long run.

## Implications for Policy

*The fertility of Maine's forests is one of the amazing miracles of our time. It has stood up under two hundred years of constant shortsightedness.*

*... Without new planting, without protection, the pines and spruces have come trooping bravely back, have created new soil and new moisture and new forests. And this evergreen empire could be made tenfold greater if men would assist the tough resourcefulness of a soil that is bound to bring forth forests to house the children of the future.*

Robert P. Tristram Coffin, Kennebec, 1937.

**For the resource, the importance of a stable public policy environment has not changed.** If anything, it becomes more important as the ownership and market environment have become less stable. At a time of economic stress and unsettling change, it is hard to summon the optimism of the poet about Maine's forest future.

**The first priority is to recognize that the northeastern economy is restructuring in a largely permanent way.** The general shift away from manufacturing, and especially resource-based employment, is permanent. This is not a cyclical downturn as we have seen in the past, in which we will return to the employment levels of the previous peak. Second, we have probably not heard all the bad news yet. Though the U.S. dollar has weakened in the past year, and there are indications that this has been helpful to the U.S. manufacturing sector, the other long-term challenges have not gone away. This means that we are in new territory, economically, politically, and socially. Our familiar methods of providing for economic development, industrial parks, subsidized financing and the like, were designed for a different world. That world is gone. The question is not, how to get a plant to expand here and not in Wisconsin; it is how to compete with China or Brazil.

Maine's forest resource, its ownership patterns, and its wood-based industry are reinventing themselves under the stress of the most extreme competitive pressures in decades. We barely understand how public policy affects these developments, and can only dimly discern bold new policies that will help preserve public values and sustain important existing economic interests. All this change and instability feeds public unease about the forest's future and helps generate sympathy for a proposed large National Park.

**Maine must base its future on a sustainable competitive advantage. This means growing high quality wood of valuable species in a semi-wild to wild setting. We have lost the race to grow for tons. We need to win the race for quality.**

Our first rule must be that Stability Counts.

The second rule is Do No Harm. Under this second rule, we must review instances where our existing public policies seem to be having perverse results, and fix them; the Legislature has in fact been doing this.

The third rule is, No Wishful Thinking. Our hopes and our policies must be based on our best

appraisal of a tough and dynamic land and product market, on the world as it is. Our policies must then focus on well-tested methods of moving forward toward shared goals, a step at a time.

The last rule is, The Perfect can be the Enemy of the Good. There is no policy that will satisfy everyone. There are no policies that will fully resolve any single problem, much less all of them at once. And we do not even agree on what the problems are. Our policy tools are imperfect, blunt, and are forged in an imperfect mechanism in which politics, budget limits, and administrative practicalities affect program design and the results.

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